

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

SULLIVAN COUNTY COMMUNITY HOSPITAL
A COMPONENT UNIT OF
SULLIVAN COUNTY, INDIANA

January 1, 2011 to December 31, 2011



FILED

07/13/2012

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Hospital Officials	2
Independent Auditor's Report	3
Basic Financial Statements:	
Statement of Net Assets	4-5
Statement of Revenues, Expenses, and Changes in Net Assets	6
Cash Flow Statement Comparison	7
Notes to Financial Statements	8-20
Audit Result and Comment:	
Internal Controls Over Reporting	21
Exit Conference	22

HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Executive Officer	Michelle Sly-Smith	01-01-11 to 12-31-12
Treasurer	Michelle Sly-Smith	01-01-11 to 12-31-12
Chairman of the Hospital Board	Henry Bobe James Springer, DDS	07-01-10 to 06-30-11 07-01-11 to 06-30-12
President of the Board of County Commissioners	Tim Abrams	01-01-11 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE SULLIVAN COUNTY COMMUNITY HOSPITAL,
SULLIVAN COUNTY, INDIANA

We have audited the accompanying basic financial statements of the Sullivan County Community Hospital (Hospital), and it's the discretely presented component unit, as of and for the year ended December 31, 2011, which collectively comprise the Hospital's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Hospital presented the statement of cash flows using the indirect method. The cash flow statement also includes Budget to Actual information that should not be a part of that statement. Accounting principles generally accepted in the United States of America requires the statement of cash flows to be presented on the direct method.

In our opinion, except that the cash flows statement was prepared using the indirect method results in incomplete presentation as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital and its aggregate discretely presented component units as of December 31, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Hospital has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

May 2, 2012

SULLIVAN COUNTY COMMUNITY HOSPITAL
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	<i>Primary Government</i>	<i>Discrete Component Unit</i>	<i>Total Reporting Entity</i>
<u>ASSETS</u>			
GENERAL FUNDS:			
CURRENT ASSETS			
CASH	\$ 1,433,550	\$ -	\$ 1,433,550
HH/HOSPICE RECEIVABLES-NET	94,840	-	94,840
EMPLOYED PHYSICIAN RECEIVABLE	95,612	-	95,612
PATIENT RECEIVABLES	6,823,973	-	6,823,973
LESS CONTRACTUAL ALLOWANCES	(2,548,642)	-	(2,548,642)
LESS UNCOLLECTIBLE ALLOWANCE	(1,778,500)	-	(1,778,500)
NET PATIENT RECEIVABLES	2,496,831	-	2,496,831
OTHER RECEIVABLES	121,005	-	121,005
INVENTORIES	322,939	-	322,939
PREPAID EXPENSES	222,527	-	222,527
TOTAL CURRENT ASSETS	4,787,304	-	4,787,304
RESTRICTED ASSETS:			
INVESTMENTS-DEBT SERVICE FUNDS	785,765	-	785,765
INVESTMENTS-FUNDED DEPR.	11,913,381	-	11,913,381
INTEREST RECEIVABLE - FD	11,407	-	11,407
NONCURRENT ASSETS - LIMITED USE	12,710,553	-	12,710,553
OTHER ASSETS-DUE FROM FITNESS CTR	1,166,226	(1,166,226)	-
PROPERTY, PLANT, & EQUIPMENT			
LAND	1,042,227	-	1,042,227
BUILDING AND IMPROVEMENTS	16,871,566	1,100,424	17,971,990
FIXED EQUIPMENT	906,838	-	906,838
MAJOR MOVABLE EQUIPMENT	12,863,027	141,095	13,004,122
SUBTOTAL	31,683,658	1,241,519	32,925,177
LESS ACCUMULATED DEPRECIATION	(16,987,150)	(554,689)	(17,541,839)
SUBTOTAL	14,696,508	686,830	15,383,338
CONSTRUCTION IN PROGRESS	308,013	-	308,013
NET FIXED ASSETS	15,004,521	686,830	15,691,351
TOTAL GENERAL FUND ASSETS	\$ 33,668,604	\$ (479,396)	\$ 33,189,208

The notes to the financial statement are an integral part of this statement.

SULLIVAN COUNTY COMMUNITY HOSPITAL
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

<u>LIABILITIES AND FUND EQUITY</u>	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
GENERAL FUNDS:			
CURRENT LIABILITIES			
ACCOUNTS PAYABLE	\$ 344,305	\$ -	\$ 344,305
ACCTS. RECEIVABLE CREDIT BALANCES	115,041	-	115,041
SALARIES PAYABLES	356,129	-	356,129
PAYROLL TAXES AND DEDUCTIONS	218,587	-	218,587
ACCRUED EMPLOYEE BENEFITS	1,188,548	-	1,188,548
ACCRUED INTEREST PAYABLE	240	-	240
DUE TO THIRD PARTY PAYORS	1,084,000	-	1,084,000
DUE TO HOSPITAL	-	-	-
OTHER CURRENT LIABILITIES	7,199	20,912	28,111
CURRENT PORTION LONG TERM DEBT	655,000	-	655,000
TOTAL CURRENT LIABILITIES	3,969,049	20,912	3,989,961
LONG TERM DEBT			
OTHER LONG TERM DEBTS	335,000	-	335,000
TOTAL LONG TERM DEBTS	335,000	-	335,000
TOTAL LIABILITIES	4,304,049	20,912	4,324,961
NET ASSETS:			
INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT:	14,014,521	686,830	14,701,351
RESTRICTED:			
FOR DEBT SERVICE	785,765	-	785,765
UNRESTRICTED	14,564,269	(1,187,138)	13,377,131
TOTAL NET ASSETS	29,364,555	(500,308)	28,864,247
TOTAL LIABILITIES AND NET ASSETS	\$ 33,668,604	\$ (479,396)	\$ 33,189,208

The notes to the financial statements are an integral part of this statement.

SULLIVAN COUNTY COMMUNITY HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE PERIOD ENDING DECEMBER 31, 2011

	<i>Primary Government</i>	<i>Discrete Component unit</i>	<i>Total Reporting Entity</i>
Patient revenue:			
Net patient service revenue	\$ 25,478,703	\$ -	\$ 25,478,703
Home health revenue	676,161	-	676,161
Hospice revenue	27,028	-	27,028
Other revenue	118,451	-	118,451
Total operating revenues	26,300,343	-	26,300,343
Operating expenses:			
Salaries and benefits	12,114,225	-	12,114,225
Fees - physicians	1,022,445	-	1,022,445
Fees - other	1,902,899	-	1,902,899
Supplies	2,463,952	-	2,463,952
Utilities	393,696	-	393,696
Repair and maintenance	831,547	-	831,547
Leases and rentals	94,972	-	94,972
Insurance	282,280	-	282,280
Bad debts	3,942,960	-	3,942,960
Other expenses	571,270	-	571,270
Depreciation and amortization	1,619,233	-	1,619,233
Total operating expenses	25,239,479	-	25,239,479
Operating income	1,060,864	-	1,060,864
Nonoperating revenue (expenses):			
Interest income - general	1,725	-	1,725
Interest income - funded depreciation	123,164	-	123,164
Interest income - debt service fund	86	-	86
Gain (Loss) on investments	20,829	-	20,829
Other income	1,134,222	189,706	1,323,928
Interest expense	(26,174)	355,947	329,773
Other expense	(1,623,494)	(355,714)	(1,979,208)
Total nonoperating expenses	(369,642)	189,939	(179,703)
Increase (decrease) in net assets	691,222	189,939	881,161
Net assets beginning of the year	28,673,333	(690,247)	27,983,086
Net assets end of the year	\$ 29,364,555	\$ (500,308)	\$ 28,864,247

The notes to the financial statements are an integral part of this statement.

**SULLIVAN COUNTY COMMUNITY HOSPITAL
CASH FLOW STATEMENT COMPARISON
PERIOD ENDING DECEMBER 31, 2011**

	<u>MONTH ACTUAL</u>	<u>YTD ACTUAL</u>	<u>YTD BUDGET</u>	<u>YTD OVER (UNDER) BUDGET</u>
Cash balance at beginning of period/year (including funded depreciation)	<u>13,241,913</u>	<u>14,390,605</u>	<u>15,700,000</u>	<u>-1,309,395</u>
Cash to be provided by:				
Operations	44,161	1,237,619	743,400	494,219
Net non-operating income	-295,624	-343,468	18,470	-361,938
Extraordinary Items	0	-202,929	0	-202,929
Items not requiring an outlay of cash:				
Depreciation and Amortization	137,896	1,619,233	1,974,735	-355,502
Cash provided from operations	<u>-113,567</u>	<u>2,310,455</u>	<u>2,736,605</u>	<u>-426,150</u>
(Increase) Decrease in net patient accounts receivable	-341,051	-483,024	99,996	-583,020
(Increase) Decrease in remainder of current assets	-4,133	351,783	60,000	291,783
(Increase) Decrease in other assets excluding amortization	-52,504	671,555	-99,996	771,551
Increase (Decrease) in accounts payable	-94,201	-48,138	150,000	-198,138
Increase (Decrease) in other current liabilities	576,992	761,475	49,992	711,483
Total cash provided (A)	<u>-28,464</u>	<u>3,564,106</u>	<u>2,996,597</u>	<u>567,509</u>
Cash expended for:				
Principal payments on Hospital Bonds	0	2,320,000	620,000	1,700,000
Transfer to current portion for Hospital Bonds	0	0	0	0
Change in Due (to)/from Fitness Center	-346,953	-218,761	15,000	-233,761
Total change in Long Term Debt	<u>-346,953</u>	<u>2,101,239</u>	<u>635,000</u>	<u>1,466,239</u>
Purchases of property and equipment:				
Routine equipment replacements	45,124	841,893	1,487,400	-645,507
Contingent equipment replacements	0	18,524	154,800	-136,276
Construction/Land Improvements	0	493,998	1,349,300	-855,302
Purchase of Land	0	0	0	0
Non-budgeted items	0	11,255	0	11,255
Prior Yr. paid in 2011	0	22,794	0	22,794
Major Projects-Construction in Progress	168,347	1,198,292	0	1,198,292
Net disposals	0	-84,226	0	-84,226
Accumulated Deprec. change on disposals	0	4,011	0	4,011
Less: Fitness Center purchases	0	0	-1,370	1,370
Net Fixed Asset purchases	<u>213,471</u>	<u>2,506,541</u>	<u>2,990,130</u>	<u>-483,589</u>
Total cash expended (B)	<u>-133,482</u>	<u>4,607,780</u>	<u>3,625,130</u>	<u>982,650</u>
Net increase (decrease) in cash (A-B)	<u>105,018</u>	<u>-1,043,674</u>	<u>-628,533</u>	<u>-415,141</u>
Cash balance at end of period/year (including funded depreciation)	<u>13,346,931</u>	<u>13,346,931</u>	<u>15,071,467</u>	<u>-1,724,536</u>
ACTUAL	13,346,931	13,346,931		
DIFF	0	0		

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Sullivan County Community Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Sullivan County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Sullivan County.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component unit. The component unit discussed below is included in the Hospital's reporting entity because of the significance of its operational or financial relationships with the Hospital. Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the basic financial statements to emphasize that it is legally separate from the Hospital.

Discretely Presented Component Units

The Sullivan County Community Hospital Fitness Center is a significant discretely presented component unit of the Hospital. The primary government appoints a voting majority of the Fitness Center's board and a financial benefit/burden relationship exists between the Hospital and the Fitness Center.

Separate audit reports are not prepared for the individual component units.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Hospital has elected to apply subsequent private-sector guidance.

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of 12 months or less.

Short-term investments are investments with remaining maturities of 12 months or less.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 5,000	Straight-line	5 to 20 years
Buildings and improvements	5,000	Straight-line	10 to 20 years
Equipment	5,000	Straight-line	3 to 10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

4. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the hospital, including amounts deposited with trustees as required by revenue bond indentures.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

D. Grants and Contributions

From time to time, the Hospital receives grants from Sullivan County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

E. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

F. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses, and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

G. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

H. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis.

I. Supplies

Inventories of drugs and other supplies are stated at the lower of cost or market.

J. Compensated Absences

A liability exists for those employees who prior to December 4, 2002, had accrued sick leave. No liability is reported for sick leave for employees hired after that date.

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid time off, to a maximum of 76 days.

Paid days off are accrued when incurred and reported as a liability.

K. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the Statement of Net Assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the Statement of Net Assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Assets for estimated third-party payor settlements approximates its fair value.

Long Term Debt

Fair values of the Hospital's revenue notes are based on current traded value.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2011, the Hospital had the following investments:

Investment Type	Primary Government Market Value
U.S. treasury bonds	\$ 785,765
U.S. treasuries and securities	2,479,576
Mutual Bond Funds	2,943,805
Certificates of deposit	6,490,000
Total	<u>\$ 12,699,146</u>

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in:

Any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.

Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for custodial credit risk. Investments are held in the Hospital's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk for investments.

Investment Type	Investment Maturities (in Years)			
	Less Than 1	1-5	6-10	More Than 10
U.S. treasury bonds	\$ -	\$ -	\$ -	\$ 785,765
U.S. treasuries and securities	2,479,576	-	-	-
Mutual Bond Funds	-	2,943,805	-	-
Certificates of deposit	1,175,000	5,315,000	-	-
Totals	<u>\$ 3,654,576</u>	<u>\$ 8,258,805</u>	<u>\$ -</u>	<u>\$ 785,765</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk for investments.

	Hospital's Investments
	Standard and Poor's Rating
AA	<u>\$ 2,943,805</u>
Total	<u>\$ 2,943,805</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Hospital does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Foreign Currency Risk

The Hospital does not have a formal policy in regards to foreign currency risk.

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 4,041,383
Receivable from Medicare	1,396,007
Receivable from Medicaid	305,939
Unbilled receivables	<u>1,080,644</u>
 Total patient accounts receivable	 6,823,973
 Less allowance for uncollectible amounts	 <u>4,327,142</u>
 Patient accounts receivable, net	 <u><u>\$ 2,496,831</u></u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 1,763,264
Payable to suppliers	344,305
Other	<u>1,112,351</u>
 Total accounts payable and accrued expenses	 <u><u>\$ 3,219,920</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,042,227	\$ -	\$ -	\$ 1,042,227
Construction in progress	<u>266,612</u>	<u>41,401</u>	<u>-</u>	<u>308,013</u>
Total capital assets, not being depreciated	<u>1,308,839</u>	<u>41,401</u>	<u>-</u>	<u>1,350,240</u>
Capital assets, being depreciated:				
Buildings and improvements	16,871,566	-	-	16,871,566
Equipment	<u>11,305,206</u>	<u>3,326,521</u>	<u>861,862</u>	<u>13,769,865</u>
Totals	<u>28,176,772</u>	<u>3,326,521</u>	<u>861,862</u>	<u>30,641,431</u>
Less accumulated depreciation for:				
Buildings and improvements	12,224,638	1,456,240	67,360	13,613,518
Equipment	<u>3,167,047</u>	<u>206,585</u>	<u>-</u>	<u>3,373,632</u>
Totals	<u>15,391,685</u>	<u>1,662,825</u>	<u>67,360</u>	<u>16,987,150</u>
Total capital assets, being depreciated, net	<u>12,785,087</u>	<u>1,663,696</u>	<u>794,502</u>	<u>13,654,281</u>
Total primary government capital assets, net	<u><u>\$ 14,093,926</u></u>	<u><u>\$ 1,705,097</u></u>	<u><u>\$ 794,502</u></u>	<u><u>\$ 15,004,521</u></u>

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Discretely Presented Component Units</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Land improvements	\$ -	\$ -	\$ -	\$ -
Buildings and Improvements	1,093,980	6,444	-	1,100,424
Equipment	141,095	-	-	141,095
Totals	1,235,075	6,444	-	1,241,519
Less accumulated depreciation for:				
Buildings, improvements and equipment	491,664	63,025	-	554,689
Total discretely presented component units, net	<u>\$ 743,411</u>	<u>\$ (56,581)</u>	<u>\$ -</u>	<u>\$ 686,830</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to December 31, 2011</u>
Meditech 6.0 upgrade	<u>\$ 308,013</u>

E. Leases

Operating Leases

The Hospital has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for an electronic medication processing system (Pyxis System). Rental expenditures in 2011 for this lease were \$77,124. The following is a schedule by years of future minimum rental payments as of year end:

2012	\$ 77,124
2013	<u>77,124</u>
Total	<u>\$ 154,248</u>

F. Long-Term Liabilities

1. Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
1998 Indiana Health Facility Financing Authority Revenue Bonds	Variable	<u>\$ 990,000</u>

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Principal</u>
2012	\$ 655,000
2013	<u>335,000</u>
Total	<u>\$ 990,000</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011 was as follows:

<u>Primary Government</u>	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable:					
Indiana Health Facility					
Financing Authority	<u>\$ 3,310,000</u>	<u>\$ -</u>	<u>\$ 2,320,000</u>	<u>\$ 990,000</u>	<u>\$ 655,000</u>

3. Net Revenue Available for Debt Service

The following disclosures concerning net revenue available for debt service applicable to the year ended December 31, 2011, are required by terms of the financing agreement between the Hospital and IHFFA:

Revenue from operations	\$ 26,300,343
Investment income	145,804
Less:	
Expenses (excluding depreciation, amortization	
and interest on funded debt)	<u>23,594,072</u>
Total net revenue available for debt service	<u>\$ 2,852,075</u>
Funded debt service for year	<u>\$ 990,000</u>
Historical debt service coverage ratio	<u>2.88</u>

G. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

2. Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

Revenue from the Medicare and Medicaid programs accounted for approximately 29 percent and 30 percent of the Hospital's net patient revenue for the years ended 2010 and 2011, respectively, before any retroactive adjustments from the cost report results. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change, but not materially, in the near term.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$47,980 for 2011.

I. Internally Designated Assets

Non-current cash and investments internally designated include the following:

Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.

Internally designated:	
Funded depreciation:	
Investments	\$ 11,913,381
Accrued interest receivable	<u>11,407</u>
Total internally designated	<u>\$ 11,924,788</u>

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

J. Restatements

For the year ended December 31, 2010, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Hospital. The following schedule presents a summary of restated beginning balances. Prior period adjustments represent a forgiveness of debt between the Hospital and its discrete component unit that was not previously reported.

Opinion Unit	Balance as Reported December 31, 2010	Prior Period Adjustments	Balance as Restated January 1, 2011
Hospital net assets	\$ 27,259,788	\$ 1,413,545	\$ 28,673,333
Fitness Center net assets	469,535	(1,159,782)	(690,247)

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the General Fund where expenses are accrued for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred. However, claim liabilities cannot be reasonably estimated.

B. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Postemployment Benefits

The Hospital offers to pay 60 percent of healthcare premiums that the Hospital offers to its employees for any employee who retires from the Hospital on or after attaining age 60 with at least 25 consecutive years of service. The Hospital and retiree provide 60 percent and 40 percent, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2011, there were no retired employee participants.

D. Other Postemployment Benefits

Defined Contribution Healthcare Plan

Plan Description

Sullivan County Community Hospital Healthcare Plan is a defined contribution healthcare plan administered by Sullivan County Community Hospital. The plan provides medical insurance to eligible retirees. The Hospital has the authority to establish and amend benefit provisions to the plan.

Funding Policy

The contribution requirements of plan members for the Sullivan County Community Hospital Healthcare Plan are established by the Hospital's governing board. The required contribution is 40 percent. For the year ended December 31, 2011, the Hospital contributed \$0 to the plan. Plan members receiving benefits contributed \$0.

E. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

F. Pension Plan

Defined Contribution Pension Plan

Sullivan County Community Hospital Retirement Security Plan and 403(b) Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Principal Financial group as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established and can be amended by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Principal Financial Group
P.O. Box 8704
Wilmington, DE 19899
Ph. (866) 518-8969

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established and can be amended by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members may contribute up to \$17,000 of their annual covered salary. The Hospital is required to match one-half of the employee contribution up to 2.5 percent. In addition, the Hospital is required to contribute 2 percent of the annual covered payroll. Employer and employee contributions to the plan were \$283,762 and \$526,757, respectively. At year end the Hospital had an accrued benefit payable to the plan of \$154,800.

SULLIVAN COUNTY COMMUNITY HOSPITAL
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER REPORTING

Sullivan County Community Hospital presented the Statement of Cash Flows using the indirect method. Accounting principles generally accepted in the United States of America requires the Statement of Cash Flows be presented on the direct method. A modified opinion for the presentation the statement of cash flows was issued and represents an internal control problem with financial reporting.

GASB 34, Par. 105 states: Governments should present a statement of cash flows for proprietary funds based on the provisions of Statement 9, as amended by this Statement. The direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) should be used.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Hospitals, Chapter 1)

SULLIVAN COUNTY COMMUNITY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on May 2, 2012, with Michelle Sly-Smith, Chief Executive Officer, and Alan Montella, Assistant Administrator of Finance.